

The Honorable Mary Jo Heston
Hearing Date: July 23, 2020
Hearing Time: 9:00 A.M.
Telephonic Hearing
Response Date: July 16, 2020
Chapter 11

UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF WASHINGTON

In re

L.G. STECK MEMORIAL CLINIC, P.S.

Debtor.

Case No. 19-43334-MJH

FIRST INTERIM APPLICATION OF
VALID8 FINANCIAL, INC. FOR
COMPENSATION FOR SERVICES
RENDERED

Pursuant to 11 U.S.C. §§330 and 331, and Local Bankruptcy Rule 2016-1, Valid8 Financial, Inc. (“Valid8”) hereby applies for compensation for services rendered and costs related thereto for the period of January 24, 2020 through April 24, 2020 (the “Application”). As set forth in this Application and in the invoice attached hereto, Valid8 applies for compensation for services rendered in the amount of fees in the amount of \$55,650.06 plus sale tax of \$4,563.30 for a total request of \$60,213.36. In support of this Application, Valid8 respectfully represents as follows:

1. Order Authorizing Employment. On January 24, 2020, this Court entered an Order Authorizing Employment of Valid8 Financial, Inc. As The Debtor’s Digital Forensic Consultant. *Dkt. #95.*
2. Statement Regarding Prior Fee Applications. Valid8 has not filed any prior fee applications in this matter.

FIRST INTERIM APPLICATION OF VALID8
FINANCIAL, INC. FOR COMPENSATION FOR
SERVICES RENDERED - 1

THE TRACY LAW GROUP^{PLLC}
1601 5th Ave, Suite 610
Seattle, WA 98101
206-624-9894 phone / 206-624-8598 fax

1 3. Other Professionals Employed. Debtor has employed The Tracy Law Group
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3 PLLC as its bankruptcy counsel and Orse & Company, Inc. (“Orse”) as its financial advisor.
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5 4. Source of Payment and History of Funds in Trust Account. The Tracy Law
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7 Group PLLC presently holds the sum of \$15,000 in its IOLTA Trust Account. These funds
8
9 represent the administrative expense carve-out pursuant to the various cash collateral orders
10
11 (“Carve Out Fund”).
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14 Orse and Valid8 would be paid their pro-rata share from the Carve Out Fund.
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16 **At this time, Valid8 is only seeking authorization to pay the fees from the Carve**
17
18 **Out Fund (to the extent they are available), from unsecured funds of the estate (to the**
19
20 **extent they are available), and from the Debtors’ future income stream, subject to any**
21
22 **restrictions in a cash collateral order.**
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25 5. Narrative Summary of Professional Services Provided, Results Obtained, and
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27 Benefit.
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30 a. Valid8 analyzed each of the Debtor’s bank accounts from the 2012 (or from
31
32 when the bank account was opened, whichever was earlier) to the date of filing. This analysis
33
34 included the Debtor’s general operating account at Security State Bank, the Debtor’s payroll
35
36 account at Security State Bank, the Debtor’s ACH account at U.S. Bank (which is used to collect
37
38 insurance payments from the Debtor’s medical billing provider and then transfer those receipts
39
40 to the general operating account, a small savings account, a tax account that had been closed,
41
42 and a current tax account.
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44

45 Valid8 first obtained all bank statements for the above time periods and all cash ledger
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47 transactions. The information was then extracted to Valid8’s proprietary software and

1 reconciled to ensure completeness and accuracy. Valid8 then identified transfers between the
2
3 various accounts and separate legal entities. Regarding payments by checks, Valid8 compared
4
5 QuickBooks and the integrated bank statements to obtain payee names. Valid8 also categorized
6
7 bank transactions. Finally, Valid8 provided a summary of historical trended sources/uses and
8
9 transfer of funds.
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12 Valid8's reviewed 93,302 separate transactions in the accounts which are then detailed in
13
14 various extremely detailed spreadsheets. These reports are searchable by payee, payor, and type
15
16 of transaction.
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19 Valid8 compared the data obtained from
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21 b. Benefit to the Estate and Remaining Work.
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24 Following completion of the analysis, Valid8 reported that there have been multiple sets
25
26 of QuickBooks files and no consolidated "statement of record" for all years. Valid8 also
27
28 determined that the QuickBooks files contained a significant number of missing transactions
29
30 that are now accounted for. Prior to the bankruptcy, there was no consistent account
31
32 reconciliations performed. Validate found approximately 4,000 transfers between the accounts
33
34 during the time period. Because there had been no reconciliation, overdrafts and negative
35
36 balances were regular occurrences, which lead to bank fees in excess of \$400,000 during the
37
38 time period. As a result, the Debtor now believes that its books and records are far more
39
40 complete. The Debtor now has an EXTRAORDINARILY detailed analysis of the financial
41
42 position of the Debtor over the years, all of which have provided information and guidance to
43
44 management on what not to do again. The Valid8 analysis also provides documentation to
45
46 review potential avoidance claims or other causes of action of the bankruptcy estate.
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1 c. Itemized Record of Services. As noted above, annexed hereto as Exhibit A is an
2 invoice reflecting the transactions fees related to the engagement. The rates are equal to the rates
3
4 quoted in the engagement as approved by the Court.
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- 7 • First 10,000 Transaction .75 per transaction
- 8 • 10,000 – 25,000 Transactions .68 per transaction
- 9 • 25,000 – 50,000 Transaction .60 per transaction
- 10 • 50,000 – 100,000 Transactions .53 per transaction.

11 8. Status of Case. The Debtor has been significantly impacted with the COVID-
12 19 pandemic. Rather than being able to conduct in person patient visits (which are covered at
13 higher rates by insurance), the Debtor converted to tele-medicine visits (which are covered at
14 lower rates by insurance). The Debtor, however, received a true grant from the federal
15 government reserved for rural health clinics. This grant has been able to allow the Debtor to
16 continue operations. Obviously, COVID-19 restrictions are changing almost daily and that has
17 made it is virtually impossible to predict and model future income. However, the Debtor has
18 taken steps to change its income producing provider mix, to increase the number of income
19 producing providers and reduce staff and costs. The Debtor hopes to be able to propose a plan
20 and disclosure statement prior to the next cash collateral hearing. But the Debtor wants to
21 make sure that its projections and plans are feasible and realistic in a COVID-19 world.
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24 9. Conclusion. The Application, as discussed above, requests reasonable
25 compensation for actual services rendered by Valid8. The rates charged are reasonable for the
26 level of service provided. The application is based on the nature, the extent, and the value of
27 the services performed, time spent on such services, and the cost of comparable services other
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1 than in a case under Title 11 of the United States Code. Accordingly, Valid8 respectfully
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3 requests that pursuant to 11 U.S.C. § 330, the application for compensation in the amount of
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5 \$60,213.36 be approved.
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8 DATED this 2ND day of July 2020.
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10 THE TRACY LAW GROUP PLLC
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12
13 By /s/ J. Todd Tracy
14 J. Todd Tracy, WSBA #17342
15 Steven J. Reilly, WSBA #44306
16 Attorneys for Debtor
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